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CURRENT SUPPORT MEMORANDUM

CHINESE COMMUNIST SHIP CHARTERING SINCE MID-1958

OFFICE OF RESEARCH AND REPORTS

CENTRAL INTELLIGENCE AGENCY

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In the past few months, SINOFRACHT, the Chinese Communist ship-chartering organization, which had secured numerous vessels in previous years through a British registered company, is dealing openly for the first time and has chartered more than 100 merchant vessels of 7-12,000 deadweight ton (DWT) capacity. 1/ The vessels currently under charter have been hired at favorable rates for periods ranging from one month to at least 20 months. By securing long-term charters on the now depressed market, the Chinese have guaranteed themselves an adequate pool of low-cost shipping to meet an anticipated increase in trade with the West.

The increase in ship-charters by the Chinese Communists is not as great as press reports indicate but the Chinese have stepped up charter activity. There are several developments which give rise to a need for increased shipping over the next several months.

The general increase in activity engendered by the "leap-forward movement" entails a need for more imports and increased Chinese coastal shipping. The cessation of trade with Japan has diverted a substantial amount of trade to more distant markets entailing longer voyages. Reported recent deals made by the Chinese include 600,000 tons of steel from Western Europe and large quantities of sugar from Brazil. These and a number of other recent purchases may represent an unanticipated demand for shipping and even partial attainment of proposed production levels under China's "leap forward" will substantially increase export availabilities.

Communist China's recent activity on the charter market has two characteristics which mark more of a change in Chinese shipping policy than does the increase in charters: (1) they are turning largely to time charters in place of voyage charters, and (2) they are chartering mainly new, relatively efficient ships.

As of late September the Chinese Communists had placed 108 ships under time charters: about 65 ships for less than one year and about 33 for more than one year. 2/

There are several advantages that Communist China derives from the switch to time charters. The depressed world charter market presents the lowest prices in many years. Reserving ships for long periods at these low prices protects the Chinese against a possible rise in the market. Illustrative of this fact is the refusal of shipowners to grant long-term charters at the present exceptionally low rate quoted for short-term charters. Whereas the Chinese can get a ship on a one trip time charter at around \$1.40 per ton, on charters for over a year they have to pay \$2.75 per ton per month. Apparently both the shipowners and SINOFRACHT expect a rise in the charter market. If it is a large rise, the Chinese will profit on the long-term charters; if there is a small rise or none, the shipowners will profit.

Chinese Communist planning is eased by having shipping assured for definite future periods at fixed rates. A time charter also allows more flexibility and maximum usage of a vessel. For example, a time-chartered vessel can be used for coastal trips while waiting for export cargo instead of having a fixed loading port entailing long unproductive delays in China's presently congested ports.

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SINOFRACHT appears to be interested primarily in chartering only modern vessels even though this means paying more than the average market rate. 3/ Because of their superior speed and efficiency, these new ships are able to deliver more goods per dollar of charter fee than the older ships which could be hired more cheaply.

According to the authoritative international shipping journal, Fairplay, the Chinese Communist demand for ships appeared to be easing off in mid-September. Although the Chinese will continue to charter some vessels to meet normal requirements, it is believed that the chartering activity will level off as the typical year-end rush is completed.

24 November 1958

CURRENT SUPPORT MEMORANDUM 620

Page 3

~~SECRET~~

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26 Sept 58. C.
2. State, American Consulate General, Hong Kong, Dsp 248,
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3. Ibid.

24 November 1958

CURRENT SUPPORT MEMORANDUM 620

Page 4

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